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		Montreal and Toronto
The Annual General Meeting of Shareholders will be held at the Head Office of the Company, 800 Victoria Square, Suite 3620, Montreal, P.Q. at 11:00 a.m., April 22, 1977.		Paper Mills:
		St. Jerome and Mont Rolland, P.Q. and Scarborough, Ontario.

Si vous préférez recevoir votre rapport
annuel en français, prière d'écrire au
Secrétaire, Compagnie de Papier
Rolland, Limitée, 800, Place Victoria,
Suite 3620, Montréal, P.Q. H4Z 1H3.



Rolland

Directors

Hon. John B. Aird, Q.C.
*Senior Partner, Aird, Zimmerman & Berlis, Barristers and Solicitors
Toronto*

***G. Drummond Birks**
*President, Henry Birks
& Sons Limited
Montreal*

****Paul Chapdelaine**
*Company Director
Montreal*

****Roger Charbonneau**
*President
Laboratoires Anglo-French Limitée
Montreal*

E. Jacques Courtois, Q.C.
*Partner, Courtois,
Clarkson, Parsons & Tétraut
Barristers and Solicitors
Montreal*

Richard A. Irwin
*Chairman of the Board
Consolidated-Bathurst Limited
London, Ontario*

***Gérard Plourde**
*Chairman of the Board, UAP Inc.
Montreal*

***Albert Rolland**
*Vice-President and Marketing
Consultant
Rolland Paper Company, Limited
Laval*

***Lucien G. Rolland**
*President and General Manager
Rolland Paper Company, Limited
Montreal*

Marc Rolland
*Retired Executive
St. Jerome*

Pierre A. Salbaing
*President and Managing Director
Canadian Liquid Air Limited
Montreal*

****Joseph A. Weldon, M.B.E., M.C.**
*Vice-President and Financial
Consultant
Rolland Paper Company, Limited
Montreal*

**Member of the Executive Committee*

***Member of the Audit Committee*

Officers

Lucien G. Rolland
President and General Manager

Joseph A. Weldon
*Vice-President and Financial
Consultant*

Albert Rolland
*Vice-President and Marketing
Consultant*

Jean-Louis Chollet
*Executive Vice-President
Fine Papers Division*

Hugh M. Craig
Vice-President

Michel Gagnon
*Executive Vice-President
Wholesale Distribution Division*

André Renaud
*Vice-President
Finance and Administration*

Alphonse St-Jacques
Vice-President and Treasurer

Jean A. Elie
*Secretary and Director of
Marketing Services*

Yvan Duchesne
Controller

Transfer Agents
*Montreal Trust Company
The Royal Trust Company*

Registrars
*Canadian Trust Company
Bankers Trust Company*

Shares Listing
*Montreal Stock Exchange
Toronto Stock Exchange*

Auditors
Touche Ross & Co.

Highlights

	1976	1975
Net sales	\$106,591,000	\$99,763,000
Net earnings (loss)	(2,437,000)	182,000
Per class "A" share	(1.36)	0.08
Per class "B" share	(1.36)	0.03
Dividends on class "A" and "B" shares	—	1,080,000
Per class "A" share	—	0.60
Per class "B" share	—	0.55
Cash Flow from (applied to) operations	(1,979,000)	3,044,000
Per class "A" share	(1.11)	1.64
Per class "B" share	(1.11)	1.59
Book Value per class "A" and "B" shares	11.00	12.35
Working Capital	11,050,000	17,297,000
Long-term Debt	17,308,000	17,490,000
Capital Expenditures	4,099,000	7,720,000





Sales and Earnings

Consolidated net sales of \$106.6 million for the year ended December 31, 1976 yielded a net loss of \$2.4 million or \$1.36 per class "A" share, as compared to sales of \$99.8 million and net earnings of \$182,000 or \$0.08 per class "A" share for the previous year. These results did not include those of the Kruger Fine Paper Wholesale Distribution Division for the first quarter of 1975.

The loss is mainly attributable to the Fine Papers Division. It was faced with higher operating costs and an abnormally high level of imports which, in turn, severely depressed prices and brought about lower shipments in the last two quarters. In addition, it absorbed the anticipated development costs pertaining to the manufacturing of technical papers at the Mont Rolland mill.

The instability of the Canadian fine paper market also affected the operations of our Wholesale Distribution Division.

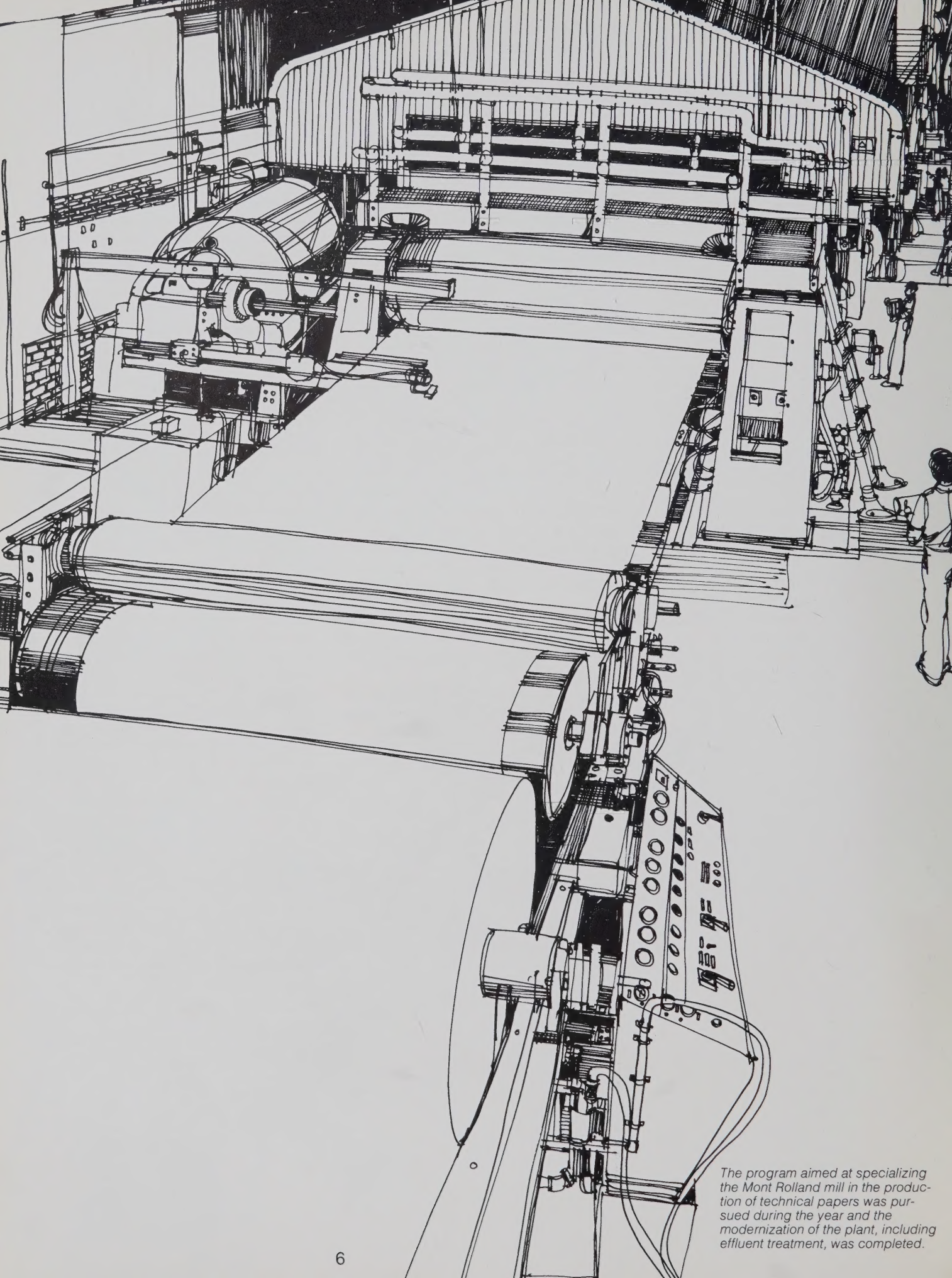
Finally, the unexpected weakness prevailing through international textile markets impaired the start-up and sales of Orchard Decor Canada Limited resulting in a loss for your Company of \$652,000.

Economic and Market Environment

The Canadian economy did not recover as quickly nor to the extent that many anticipated in the course of 1976. Nevertheless, apparent Canadian fine paper consumption was up 14% over the level achieved the previous year. Unfortunately, a combination of strikes in Canada and of under-capacity operations in American mills resulted in the most difficult market environment ever encountered.

When the federal government granted a 44% reduction in tariffs on imported fine paper products in 1967 following the Kennedy Round of GATT negotiations, the Canadian fine paper industry became extremely sensitive and vulnerable to American competition. The highly specialized U.S. industry with its much larger market, its inherent economies of scale together with its higher productivity and its considerably lower labour rates, allows American producers to market fine paper products in Canada at prices below those at which Canadian manufacturers can offer them and still make a profit. This threat is especially serious when American mills are operating below capacity as they did in 1976 when only 86% of their capacity was reportedly utilized.

During the last quarter of 1975 and the first quarter of 1976, all Canadian fine paper mills, except those of your Company, were shut down by strikes, thereby paralyzing 80% of Canadian manufacturing capacity. These strikes forced Canadian consumers to resort to imports which, during that period, rose to more than 60% of domestic consumption, at prices generally below Canadian levels.



The program aimed at specializing the Mont Rolland mill in the production of technical papers was pursued during the year and the modernization of the plant, including effluent treatment, was completed.

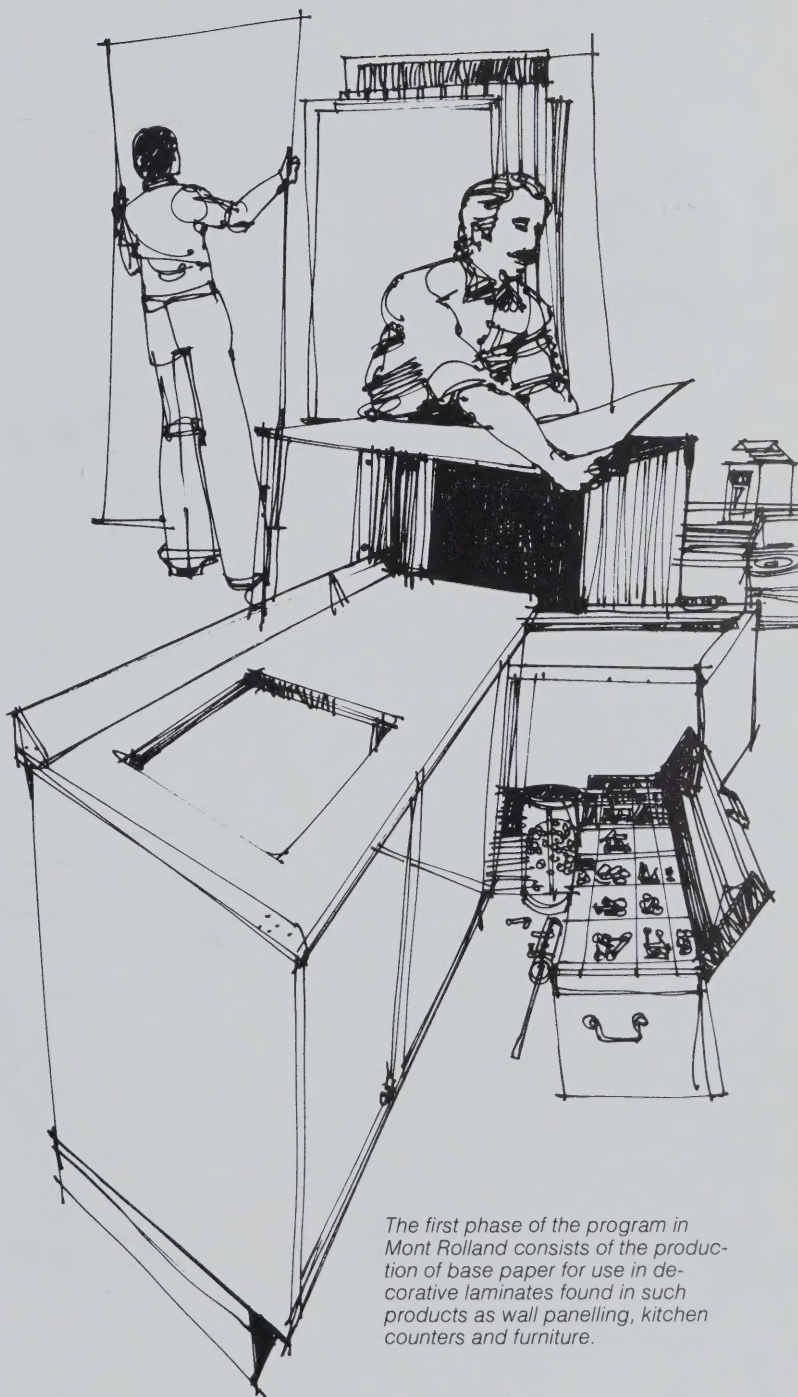
As operations resumed, Canadian fine paper mills aggressively sought to regain their market share. Prices were lowered and the level of imports was gradually brought down to about 22% at year-end as against 14.8% in 1974. When compared to the normal historical level of shipments, these imports deprived Canadian manufacturers of more than 120,000 tons in 1976 alone. As an overall result, Canadian fine paper mills operated at 67% of capacity for the current year as against 98% in 1974. Lower volumes and lower prices, combined with higher costs of wages, materials, oil and electricity, thrust this industry and your Company into the worst trading conditions ever encountered, thus generating the financial results contained in this report.

Fine Papers Division

This Division consists of the paper manufacturing operations in St. Jerome and Mont Rolland, the coating operations in Scarborough, Ontario, and the marketing of the product lines manufactured in these locations. During the first quarter, its mills were under the pressure of an unprecedented level of orders stemming from the strikes. As these were settled, the pressures gave way to serious market disruptions caused by Canadian competitors attempting to regain their pre-strike market share which had been mainly lost to imports. Prices were seriously reduced on large volume uncoated grades.

The Division has not effected a general price increase in uncoated grades since 1974. The market for coated products however was strong throughout the past twelve months as a result of a tight supply situation in both Canada and the United States. Selective price increases were implemented and the Company strengthened its position in the high quality coated printing market.

The marketing team strengthened its organization with the appointment of Mr. W. J. Hardy as General Sales Manager, who will reside in Ontario, and of two sales managers, one for each of the eastern and western markets.



The first phase of the program in Mont Rolland consists of the production of base paper for use in decorative laminates found in such products as wall panelling, kitchen counters and furniture.

The program aimed at specializing the Mont Rolland mill in the production of technical papers was pursued during the year and the modernization of the plant, including effluent treatment, was completed during the summer, at a total cost of \$4.6 million. The first phase of the program consists of the production of base paper for use in decorative laminates found in such products as wall panelling, kitchen counters and furniture. Trials of overlay paper were made and paper delivered to customers. Their reaction was good and resulted in further trials and in some commercial orders. The acceptance of this product is encouraging and will provide the necessary basis to establish ourselves as a prime supplier. It is expected that 90% of the production will be exported.

As anticipated, sizeable development costs were incurred in 1976. It is expected that the project will start generating earnings in 1978.

The operating rate in our St. Jerome and Mont Rolland mills was 98% of capacity in the first quarter and 75% during the rest of the year, or an average of 83% for the year. This is comparable to 1975. The mills are now operating on a 6-day basis as opposed to a 7-day schedule earlier in 1976.

In the light of these results, costs were reduced, expenses curtailed and measures taken to further improve our productivity. Their full effect will be felt in 1977.

However, our two most significant items of cost are pulp, our principal raw material, and labour.

Pulp — The worldwide inventory of market pulp was extremely high but pulp prices remained high until the year-end. We had anticipated that the forces of supply and demand would have resulted in a more normal relationship of market pulp prices to paper prices. The Statistics Canada price index for woodpulp shows that it has moved from 94.2 in 1972 to 234.1 in 1976 while the fine paper index moved from 102.5 in 1972 to 162.5 in 1976. The market pulp producers must, at some point, realize that, if they are to protect their future markets, they must help make their customers more competitive.

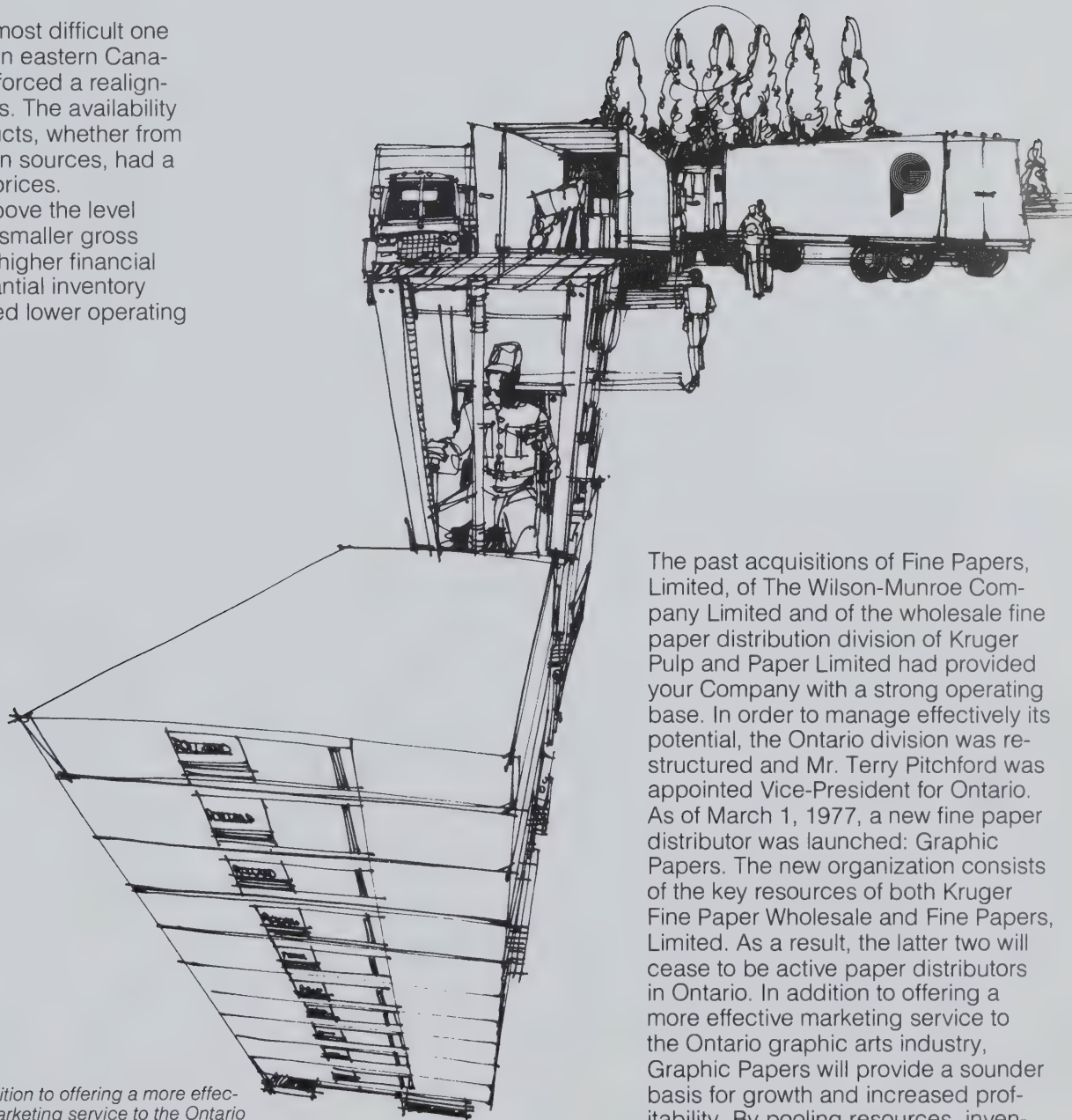
Labour — The wages and fringe benefits disbursed to hourly-paid employees are approximately 20% higher in Canada than in U.S. fine paper mills. This has contributed to eliminate profits and to price Canadian manufacturers out of their own markets. The gradual loss of volume is causing the export of jobs outside our own country.

If our mills had been located in Northern New York State, the probability is that the total compensation paid to hourly employees would have been \$1.8 million lower.

Wholesale Distribution Division

This Division groups the activities of the Company's wholesale fine paper distributors: Fine Papers, Limited, The Wilson-Munroe Company and Kruger Fine Paper Wholesale. Through warehouses in Toronto, Montreal, Quebec City, Ottawa and Sudbury, it enjoys a sizeable share of the Ontario and Quebec markets.

The year was also a most difficult one for them. The strikes in eastern Canadian fine paper mills forced a realignment of their suppliers. The availability of lower priced products, whether from Canadian or American sources, had a downward effect on prices. Sales were slightly above the level attained in 1975, but smaller gross profits, together with higher financial expenses and substantial inventory markdowns, generated lower operating earnings.



In addition to offering a more effective marketing service to the Ontario graphic arts industry, Graphic Papers will provide a sounder basis for growth and increased profitability.

The past acquisitions of Fine Papers, Limited, of The Wilson-Munroe Company Limited and of the wholesale fine paper distribution division of Kruger Pulp and Paper Limited had provided your Company with a strong operating base. In order to manage effectively its potential, the Ontario division was restructured and Mr. Terry Pitchford was appointed Vice-President for Ontario. As of March 1, 1977, a new fine paper distributor was launched: Graphic Papers. The new organization consists of the key resources of both Kruger Fine Paper Wholesale and Fine Papers, Limited. As a result, the latter two will cease to be active paper distributors in Ontario. In addition to offering a more effective marketing service to the Ontario graphic arts industry, Graphic Papers will provide a sounder basis for growth and increased profitability. By pooling resources, inventories will be reduced, operations rationalized and costs curtailed.

Orchard Decor Canada Limited

Incorporated as a joint venture with The Orchard Corporation of America, this new company commenced production operations in May at its plant located in Granby, Quebec.

The initial plan called for the production and sale of heat transfer papers to the international textile industry. Unfortunately, the opportunities on which this company counted on disappeared quite suddenly, early in 1976, with the virtual collapse of textile markets. Many textile manufacturers in Canada went bankrupt or ceased operations as cheap imports threatened the industry.

The Canadian market for heat transfer papers was thus considerably reduced. Inventories were high, competition strong and prices unsatisfactory. Despite carefully controlled costs, major losses were incurred.

This situation prompted the company to diversify its activities into the printing of wood grains for use in wall panelling, furniture and other related industries. Designs and products appear to be well accepted.

Environment

Installation of effluent treatment facilities at the Mont Rolland mill became operational during the year. These facilities, completed at a cost of \$1 million, will allow the Company to improve the quality of effluents and to meet the new standards of the Quebec Water Board for which compliance is required before December 31, 1978.

Industrial Relations

Negotiations with the unions representing the hourly-paid, office and salaried employees of our St. Jerome and Mont Rolland mills were completed. New agreements were signed for the period ending April 30, 1979. Negotiations with the unions representing the hourly-paid and the office employees of our Scarborough plant have also been concluded. Final terms are now awaiting ratification by the Anti-Inflation Board.

Financial

The operating loss of \$4.7 million in 1976 has already been commented on. This included increased operating expenses due to trials, experiments and start-ups in the technical paper project and in Orchard Decor Canada Limited. These two diversification projects were launched at a time when our traditional operations did not generate earnings, contrary to our expectations.

The increase of \$1.8 million in selling and administrative expenses resulted from inflation in salaries and the inclusion of the expenses of the Kruger Fine Paper Wholesale units for twelve months in 1976 as compared to nine months in 1975. The increase of \$0.8 million in interest expense was attributable to the annual cost in 1976 of the \$12 million 11¾% debentures issued on July 15, 1975 and to higher short-term borrowings.

The operating loss before income tax credit produced a negative cash flow of \$1,979,000 in 1976, or \$1.11 per class "A" share against a positive cash flow of \$3,044,000 or \$1.64 per class "A" share the previous year. Outlays for capital expenditures were \$4.1 million in 1976 compared with \$7.7 million in the previous year. The largest disbursements were for the completion of the technical paper project and of the effluent treatment plant in Mont Rolland. The installation of the equipment for the speed-up of no. 8 paper machine in St. Jerome was deferred pending resumption of better market conditions. Interest of \$489,000 in connection with construction in progress was capitalized during the year and included in the above outlays. We discontinued capitalizing interest on the speed-up of no. 8 paper machine on July 1, 1976, until the final stage of the installation of the equipment is resumed. Government grants of \$200,000 relating to the above projects were credited to fixed assets.



Orchard Decor Canada Limited has diversified its activities into the printing of wood grains for use in wall panelling, furniture and other related industries.

The working capital of \$11 million at December 31, 1976 was \$6.2 million lower than last year and the ratio of current assets to current liabilities decreased to 1.7:1 at year-end. The overall decrease in the working capital resulted from the operating loss before income tax credit and the additions to fixed assets during the year. These were financed in part by the receipt of \$1.8 million of income tax recoverable and by increases in notes payable of \$3 million and bank indebtedness of \$0.9 million. The decrease in accounts receivable of \$3.6 million was offset by a corresponding decrease of \$3.3 million in accounts payable reflecting a lower volume of activity at the end of 1976 when compared to the seven-day operations at the end of 1975.

The income tax credit of \$1,458,000 in 1976 to be realized by applying this year's loss against earnings of the next five years is reflected on the balance sheet as a reduction of deferred income taxes.

The minority interest of our partner in the shareholders' equity of Orchard Decor Canada Limited, which amounted to \$157,000 as at December 31, 1975, was eliminated by losses in the last year. Your Company absorbed \$652,000 of the total loss of \$809,000. No income tax credit has been taken by Orchard Decor Canada Limited in 1976.

The Company is subject to the Anti-Inflation Act which became effective on October 14, 1975. The Company has adhered to the provisions of the legislation and, therefore, has no material liability under the provisions of the Act.

Dividends

In light of the results, your Directors decided throughout the course of the year not to resume the payment of quarterly dividends to shareholders of class "A" and class "B" shares.

A similar decision was also taken on February 14, 1977 in view of the outlook for the first quarter. The question of dividends and the return on your investment is one of your Directors' constant concerns.

The regular quarterly dividend of \$1.06¼ on preferred shares was maintained throughout the year. Total disbursements were \$59,000 or \$4.25 per share. On February 14, your Directors also declared the regular quarterly dividend payable March 15 to shareholders of record February 18, 1977.



In 1977, shipments to the domestic market will increase when compared to those of 1976. Our mills are expected to operate at six days.

Outlook

The outlook for 1977 is one of slow growth with Real Gross National Product expected to increase by 3% to 3.5% over 1976.

Against this background, it is anticipated that Canadian fine paper consumption will grow by about 5% as against 14% in 1976. The extent to which Canadian mills will satisfy this demand profitably depends, to a certain extent, on the U.S. environment. Estimates indicate a growth of 6% in U.S. fine paper consumption as against more than 20% in 1976. Production capacity is expected to increase by 4% and American fine paper mills should operate at approximately 90% in 1977, except for coated facilities which are expected to continue at their present level in excess of 93%. U.S. prices will therefore not increase markedly.

Under such circumstances, it will be difficult for Canadian fine paper producers to regain further market share and to increase prices. We expect imports to account for approximately 20% of Canadian consumption. Shipments to the domestic market will increase when compared to those of 1976. Our mills are expected to operate at six days.

The key to your Company's return to a profitable operating level lies in the ability of its Fine Papers Division to increase volume, achieve higher production efficiency, reduce raw material and labour costs and improve product mix.

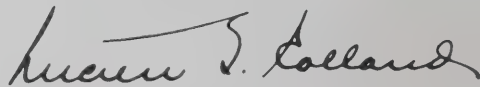
At Orchard Decor, 1976 was a start-up year. Operations have now reached an efficient level in the printing of both heat transfer papers and woodgrains. However, the outlook for 1977 is uncertain. The textile market remains weak and prices for heat transfer products are still unsatisfactory. It is expected that the construction and home building markets will be weaker than in 1976.

All in all 1977 will be a very competitive year.

Appreciation

For your Company, 1976 was an extremely trying year which ended in the most uncertain of environments. This, understandably, had repercussions which affected and preoccupied all our employees. Your Directors, therefore, wish to thank them all for their relentless efforts. They also wish to express their appreciation to customers, suppliers and distributors whose cooperation and understanding helped the Company throughout the constraints brought about by the strikes in the first quarter and the disruptions that followed during the rest of the year.

On behalf of the Board.



Lucien G. Rolland
President and General Manager

Montreal, March 15, 1977.



**Consolidated
Statement of Income**

Year ended December 31

	1976	1975
	(in thousands of dollars)	
Net sales	\$106,591	\$99,763
Cost of sales	95,498	87,515
Gross profit	11,093	12,248
Selling and administrative expenses	12,209	10,405
Depreciation and amortization	1,839	1,702
Interest expense — Note 9	1,751	932
	15,799	13,039
Operating loss	(4,706)	(791)
Other income	546	481
Loss before income taxes and minority interest	(4,160)	(310)
Income taxes	1,458	353
Minority interest in loss	157	11
Earnings (loss) from operations	(2,545)	54
Amortization of excess of consideration over book value of assets acquired — Net of income taxes	(142)	(122)
Dividend income	250	250
Net earnings (loss)	(2,437)	182
Dividends on preferred shares	59	59
Net earnings (loss) applicable to class "A" and "B" shares	\$ (2,496)	\$ 123
Net earnings (loss) per share:		
Class "A"	\$ (1.36)	\$ 0.08
Class "B"	(1.36)	0.03

**Consolidated
Statement of
Retained Earnings**

Year ended December 31

	1976	1975
	<i>(in thousands of dollars)</i>	
Retained earnings at beginning of year	\$15,622	\$16,579
Net earnings (loss) for the year	(2,437)	182
	13,185	16,761
Dividends		
Preferred shares	59	59
Class "A" shares	—	816
Class "B" shares	—	264
	59	1,139
Retained earnings at end of year	\$13,126	\$15,622

**Consolidated
Balance Sheet**

At December 31

Assets

	1976	1975
	<i>(in thousands of dollars)</i>	
Current		
Cash	\$ 576	\$ 190
Accounts receivable	11,086	14,632
Income taxes recoverable	236	2,078
Inventories — Note 2	15,034	15,599
Prepaid expenses	334	279
	27,266	32,778
Grants Receivable — Note 3	1,584	1,446
Investment		
(Market value \$3,594; 1975 - \$3,328)	5,863	5,863
Fixed		
Property, plant and equipment — Note 4	22,070	19,993
Intangibles		
Excess of consideration over book value of assets acquired — Note 5	1,891	2,057
Unamortized debenture issue expense	333	360
	\$59,007	\$62,497

On behalf of the Board:
Lucien G. Rolland, Director
J. A. Weldon, Director

Liabilities

	1976	1975
	<i>(in thousands of dollars)</i>	
Current		
Bank indebtedness	\$ 4,122	\$ 3,270
Notes payable	4,000	1,000
Accounts payable and accrued liabilities	7,809	11,107
Long-term debt instalment due within one year	285	104
	16,216	15,481
Long-Term Debt — Note 7	17,308	17,490
Deferred Income Taxes	3,795	5,185
Minority Interest	—	157
Shareholders' Equity		
Capital — Notes 6 and 8		
Authorized		
21,995 Preferred shares of \$100 each issuable in one or more series		
2,400,000 class "A" and 800,000 class "B" shares without nominal or par value		
Issued		
13,995 4¼% Cumulative redeemable preferred shares	1,399	1,399
1,360,016 class "A" and 480,008 class "B" shares	7,163	7,163
	8,562	8,562
Retained Earnings		
For use in the business — Note 8	13,126	15,622
	21,688	24,184
	\$59,007	\$62,497

**Consolidated Statement
of Changes in
Financial Position**

Year ended December 31

		1976	1975
		<i>(in thousands of dollars)</i>	
Source of funds	Cash flow from operations — Note 10	\$ —	\$ 3,044
	Long-term debt	187	11,627
	Minority interest in capital stock of subsidiary	—	168
		\$ 187	\$14,839
Application of funds	Cash flow applied to operations — Note 10	\$1,979	\$ —
	Long-term grants receivable	138	1,446
	Fixed assets and goodwill acquired from Kruger Pulp and Paper Limited	—	2,171
	Additions to fixed assets — net	3,889	6,076
	Long-term debt reduction	369	1,155
	Dividends	59	1,139
		6,434	11,987
Increase (decrease) in Working Capital		(6,247)	2,852
		\$ 187	\$14,839

**Changes in
Components of
Working Capital**

Year ended December 31

		1976	1975
		<i>(in thousands of dollars)</i>	
Increase (decrease) in Current Assets	Cash and short-term investments	\$ 386	\$ 145
	Accounts receivable	(3,546)	2,306
	Income taxes recoverable	(1,842)	2,078
	Inventories	(565)	(2,477)
	Prepaid expenses	55	(47)
		(5,512)	2,005
Increase (decrease) in Current Liabilities	Bank indebtedness	852	2,306
	Notes payable	3,000	—
	Accounts payable and accrued liabilities	(3,298)	5,575
	Income taxes payable	—	(1,513)
	Long-term debt instalment due within one year	181	(86)
		735	6,282
Decrease in Working Capital from Operations		(6,247)	(4,277)
	Working capital acquired from Kruger Pulp and Paper Limited	—	8,129
	Note payable to Kruger Pulp and Paper Limited	—	(1,000)
Total Increase (decrease) in Working Capital		\$ (6,247)	\$ 2,852
Working Capital at End of Year		\$11,050	\$17,297

Note 1 Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Rolland Paper Company, Limited, its wholly-owned subsidiaries, Canada Glazed Papers Limited, The Wilson-Munroe Company Limited, Fine Papers, Limited, and Orchard Decor Canada Limited (a 60% owned subsidiary which commenced operations on September 11, 1975). The acquisition of all subsidiary companies is accounted for on a purchase basis and earnings are included in the consolidated financial statements from the date of acquisition of control. All significant inter-company transactions have been eliminated.

Inventories

Inventories of raw materials, wires, felts, supplies, repair parts and maintenance materials are carried at cost, generally determined on a first-in, first-out method. The cost of finished paper and paper in process includes raw material, direct labour and certain manufacturing overhead expenses; these inventories are carried at the lower of cost (generally first-in, first-out method) and net realizable value. Adequate provision is made for slow-moving and obsolete inventories.

Investment

The investment consisting of 125,000 common shares of Consolidated-Bathurst Limited is not considered by the Company to be of a current nature, therefore it is carried at cost instead of market value.

Property, Plant and Equipment

Depreciation of buildings and machinery and equipment is provided using the straight-line method in the manufacturing companies and the diminishing balance method in the wholesale distribution companies. Leasehold improvements are amortized on a straight-line basis over the term of the leases. Additions are recorded at cost. Government grants related to capital expenditures are deducted from the respective fixed assets. At the time of disposition of property, plant and equipment, the Company removes from the accounts the cost of the assets and the related accumulated depreciation. Gains or losses on the disposition of these assets are included in income. Interest incurred to finance construction in progress is included as a cost of the respective fixed assets.

Intangibles

Excess of consideration represents the excess of the purchase price over the book value of the net tangible assets of The Wilson-Munroe Company Limited and the Wholesale Distribution Division of Kruger Pulp and Paper Limited at date of acquisition. The excess relating to the acquisition of shares of The Wilson-Munroe Company Limited is amortized on a straight-line basis over five years commencing in 1973 while the excess relating to the acquisition of the assets of the Wholesale Distribution Division of Kruger Pulp and Paper Limited is amortized on a straight-line basis over twenty years commencing in 1975. The unamortized debenture issue expense is amortized over the life of the 11½% Sinking Fund Debentures, Series "B" issue proportionately to the amount of debentures outstanding each year.

Income Taxes

Income taxes are based on accounting income which differs in some respects from taxable income. Differences generally arise because items of income and expense, such as depreciation, are reflected in different time periods for financial accounting purposes than for tax purposes. Deferred income taxes represent the amount by which taxes on accounting income exceed taxes paid or payable on taxable income. The income tax effect to be realized from applying losses for tax purposes against future earnings is reflected in the deferred tax balance.

Pension Plans

The Company and its subsidiaries have pension plans for employees, which are contributory and trustee. These plans are being funded and the cost of the current service portion is charged to income as incurred. The cost of the unfunded past service pension liabilities is charged to income as funded.

Net Earnings per Share

The net earnings per share are calculated after taking into account the differential in the dividends paid during the year to the class "A" and class "B" shares.

Note 2 Inventories		1976	1975
		(in thousands of dollars)	
	Raw materials, wires, felts and supplies	\$ 2,973	\$ 3,482
	Repair parts and maintenance materials	862	747
	Finished paper and paper in process	11,199	11,370
		\$15,034	\$15,599

Note 3 Grants Receivable	The grants receivable are subject to recoupment or reduction if the	Company fails to comply with the stipulations in each of the agreements.	

Note 4 Property, Plant and Equipment		Cost	Accumulated Depreciation	Net	Net
				1976	1975
				(in thousands of dollars)	
	Land	\$ 439	\$ —	\$ 439	\$ 411
	Buildings	8,199	4,058	4,141	3,403
	Leasehold improvements	404	322	82	85
	Machinery and equipment	33,040	20,427	12,613	9,967
	Construction in progress	4,795	—	4,795	6,127
		\$46,877	\$24,807	\$22,070	\$19,993

Construction in progress has been temporarily suspended as of July 1, 1976. It is estimated that an amount of approximately \$4,000,000 will be required to complete the construction.

Note 5 Excess of Consideration		1976	1975
		(in thousands of dollars)	
	Excess arising on the purchase of shares of The Wilson-Munroe Company Limited	\$ 331	\$ 331
	Excess arising on the purchase of the assets of the Wholesale Distribution Division of Kruger Pulp and Paper Limited	2,000	2,000
		2,331	2,331
	Accumulated amortization	440	274
		\$1,891	\$2,057

Note 6 Capital	The preferred shares issued are redeemable at \$104 per share and are non-voting unless four quarterly dividends are in arrears. Class “A” shares are non-voting unless the Company shall fail, for a period of two consecutive years, to pay any dividend on such shares.	10 cents per share per annum before payment of any dividend on class “B” shares. If in any fiscal year dividends at the rate of 5 cents per share per annum are paid on class “B” shares, any further distribution in respect of that fiscal year shall be made equally, share for share, upon all outstanding class “A” and class “B” shares.
	Class “A” shares are entitled to a non-cumulative dividend at the rate of	

Note 7		1976	1975
Long-Term Debt		<i>(in thousands of dollars)</i>	
Sinking Fund Debentures — Series A 5¾% due July 2, 1984	\$ 7,500		
Deduct: Debentures redeemed and cancelled including \$400,000 in anticipation of future Sinking Fund Requirements	1,900	\$ 5,600	\$ 5,640
Sinking Fund Debentures — Series B 11¾% due July 2, 1995	12,000		
Deduct: Debentures redeemed and cancelled including \$43,000 in anticipation of future Sinking Fund Requirements	193	11,807	11,954
		17,407	17,594
Mortgage — 12% due June 15, 1996	187		
Deduct: Principal repayment	1	186	—
		17,593	17,594
Deduct: Instalment due within one year included in current liabilities		285	104
		\$17,308	\$17,490

Principal Repayments for the next five years

	1977	1978	1979	1980	1981
11¾% Sinking Fund Debentures	\$282	\$325	\$325	\$325	\$325
5¾% Sinking Fund Debentures	—	200	300	500	500
Mortgage	3	3	3	4	4
	\$285	\$528	\$628	\$829	\$829

The declaration of dividends and the redemption of preferred shares of the Company are restricted if such declaration or redemption results in a reduction of working capital of the Company to an amount less than \$2,000,000 for so long as the Series A Debentures are outstanding. Such declaration and

redemption will be further restricted for so long as the Series B Debentures are outstanding if such declaration or redemption would result in a reduction of the consolidated working capital of the Company and its designated Subsidiaries to an amount less than \$3,000,000.

**Note 8
Retained Earnings**

During the year the Company obtained supplementary letters patent reducing the number of authorized preferred shares from 24,800 to 21,995. By this

action the Company eliminated the restriction imposed on \$280,500 of retained earnings under Section 62 of the Canada Corporations Act.

**Note 9
Interest Expense**

	1976 <i>(in thousands of dollars)</i>	1975
Interest on long-term debt	\$1,726	\$ 977
Interest on short-term debt	514	388
	2,240	1,365
Less: amount charged to construction in progress	489	433
Interest expense	\$1,751	\$ 932

The amount of interest charged to construction in progress relates to major construction projects which were financed by specific borrowings.

On July 1, 1976 capitalization of interest on construction in progress was discontinued as the installation of the equipment has been temporarily deferred.

**Note 10
Cash Flow from
(applied to)
Operations**

	1976 <i>(in thousands of dollars)</i>	1975
Consolidated net earnings (loss)	\$(2,437)	\$ 182
Add (deduct) non-cash items:		
Depreciation and amortization	2,005	1,843
Deferred income taxes	(1,390)	1,030
Minority interest in loss	(157)	(11)
	\$(1,979)	\$3,044

**Note 11
Investment
Tax Credit**

During the years 1976 and 1975, purchases of buildings and machinery and equipment amounting to \$3,975,000 and to \$3,589,800 respectively were eligible for the federal investment tax

credit. The investment tax credits amounting to \$198,700 for 1976 and to \$179,400 for 1975 are available until 1981 and 1980 respectively to reduce the taxes otherwise payable.

**Note 12
Directors'
and Officers'
Remuneration**

	1976		1975	
	12	11	12	12
	Directors	Officers	Directors	Officers
Remuneration paid by: Rolland Paper Company, Limited	\$41,800	\$445,900	\$54,500	\$473,300

Three Officers were also Directors of the Company in 1976 and 1975.

**Note 13
Long-Term Leases**

The Company's commitments under lease agreements of various terms for property and equipment aggregate

\$4,457,000 at December 31, 1976. The annual rentals in 1977 under these leases will be \$696,900.

**Note 14
Corporate Reorganization**

On January 1, 1977, following the winding-up of Canada Glazed Papers Limited in accordance with Section 88 of the Canadian Income Tax Act, all assets and liabilities of the Company were transferred to the parent company, Rolland Paper Company, Limited. The assets were transferred at

their net book value, therefore there was no gain or loss realized on this transaction.

The existing operations of Canada Glazed Papers Limited will be continued by the parent company.

**Note 15
Income Taxes**

On the basis of the income tax returns to be filed, there is a loss for tax purposes totalling \$4,230,000 at December 31, 1976 which may be applied against future earnings, until 1981.

The reduction in income taxes to be realized by applying this loss against future earnings is reflected in deferred income taxes except for the loss of \$722,000 incurred by a subsidiary

which has only recently commenced operations. The potential tax reduction in this case is not recorded because the timing of its ultimate realization is still uncertain.

In addition, accelerated capital cost allowances of \$4,380,000 were not claimed in arriving at the loss figure and these amounts are available for use in full in any future year.

**Note 16
Anti-Inflation Act**

The Company is subject to the Anti-Inflation Act (which became effective October 14, 1975) under which the Federal Government has instituted a program of controls which limit or require justification for most increases in

prices, compensation and dividends. In the opinion of management, the Company has adhered to the provisions of the legislation and therefore the Company has no material liability under the provisions of the Act.

**Auditors' Report
to the Shareholders**

We have examined the consolidated balance sheet of Rolland Paper Company, Limited as at December 31, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.
Chartered Accountants

Montreal, Quebec
January 31, 1977

**Ten-Year
Comparative Statistics**

		1976
Sales and Earnings <i>(in thousands of dollars)</i>	Net sales	\$106,591
	Depreciation and amortization	1,839
	Interest expense	1,751
	Earnings (loss) before income taxes and minority interest	(4,160)
	Income taxes	(1,458)
	Minority shareholders' interest	(157)
	Earnings (loss) from operations	(2,545)
	Dividend income	250
	Non-operating items	(142)
	Net earnings (loss)	(2,437)
	Cash flow	(1,979)
	Percentage of earnings (loss) from operations to net sales	(2.4%)
	Percentage of net earnings (loss) to capital employed	(5.7%)
Distribution of Earnings <i>(in thousands of dollars)</i>	Dividend on preferred shares	\$ 59
	Dividend on class "A" and "B" shares	—
	Retained in the business (deficiency)	(2,496)
Per Share*	Net earnings (loss) per class "A" share	\$ (1.36)
	Dividend per class "A" share	—
	Cash flow per class "A" share	(1.11)
	Book value per class "A" and "B" shares	11.00
	Price range for class "A" shares — high	7.88
	— low	3.60
Financial <i>(in thousands of dollars)</i>	Net assets:	
	Working capital	\$ 11,050
	Investment in securities	5,863
	Fixed assets, net	22,070
	Other assets	3,808
	Capital employed	42,791
	Financed by:	
	Long-term debt	\$ 17,308
	Deferred income taxes	3,795
	Minority shareholders' interest	—
	Preferred shareholders' equity	1,399
	Class "A" and "B" shareholders' equity	20,289
	Total capitalization	42,791
	Ratio of current assets to current liabilities	1.7:1
	Capital expenditures	\$ 4,099
Other Statistics	Number of shareholders at end of year	1,862
	Average number of employees	1,497

NOTE:

Results of Fine Papers, Limited are included from January 1, 1970, results of The Wilson-Munroe Company Limited from January 1, 1971, and results of Kruger Fine Paper Wholesale from April 1, 1975.

1975	1974	1973	1972	1971	1970	1969	1968	1967
\$99,763	\$83,228	\$61,130	\$46,437	\$41,555	\$34,085	\$35,647	\$34,903	\$32,881
1,702	1,522	1,534	1,313	1,292	1,257	1,207	1,217	1,149
932	354	402	436	459	484	520	544	570
(310)	8,855	4,899	2,483	270	(808)	2,855	2,520	3,362
(353)	3,782	2,270	1,094	120	(324)	1,444	1,239	1,723
(11)	—	—	—	—	—	—	—	—
54	5,073	2,629	1,389	150	(484)	1,411	1,281	1,639
250	281	—	—	—	62	125	125	250
(122)	(66)	64	—	—	—	—	—	—
182	5,288	2,693	1,389	150	(422)	1,536	1,406	1,889
3,044	7,259	4,239	2,555	1,089	586	2,666	2,487	3,061
0.1%	6.1%	4.3%	3.0%	0.4%	(1.4%)	4.0%	3.7%	5.0%
0.4%	14.7%	8.6%	4.6%	0.5%	(1.4%)	4.8%	4.4%	5.9%
\$ 59	\$ 59	\$ 59	\$ 60	\$ 60	\$ 60	\$ 60	\$ 60	\$ 62
1,080	1,099	620	160	—	534	712	712	712
(957)	4,130	2,014	1,169	90	(1,016)	764	634	1,115
\$ 0.08	\$ 2.85	\$ 1.44	\$ 0.73	\$ 0.05	\$ (0.25)	\$ 0.82	\$ 0.74	\$ 1.01
0.60	0.61	0.35	0.10	—	0.30	0.40	0.40	0.40
1.64	3.93	2.28	1.37	0.56	0.30	1.43	1.33	1.64
12.35	12.87	10.63	9.53	8.90	8.85	9.40	8.99	8.64
8.25	10.00	10.75	7.88	4.50	7.00	10.13	8.88	12.50
5.25	7.00	6.75	3.10	2.30	3.65	5.13	6.25	6.13
\$17,297	\$14,445	\$11,443	\$ 9,649	\$ 8,385	\$ 7,751	\$ 9,901	\$ 9,735	\$ 9,680
5,863	5,863	5,863	5,863	5,863	5,863	5,863	5,863	5,863
19,993	15,434	13,874	14,008	14,758	15,780	15,934	16,176	16,136
3,863	199	265	589	589	589	257	—	89
47,016	35,941	31,445	30,109	29,595	29,983	31,955	31,774	31,768
\$17,490	\$ 6,645	\$ 6,662	\$ 7,393	\$ 7,901	\$ 8,025	\$ 8,751	\$ 9,256	\$ 9,748
5,185	4,155	3,772	3,696	3,842	4,196	4,426	4,503	4,639
157	—	—	—	—	—	—	—	—
1,399	1,399	1,399	1,422	1,422	1,422	1,422	1,422	1,422
22,785	23,742	19,612	17,598	16,430	16,340	17,356	16,593	15,959
47,016	35,941	31,445	30,109	29,595	29,983	31,955	31,774	31,768
2.1:1	2.8:1	2.7:1	2.9:1	3.1:1	2.3:1	3.5:1	4.2:1	2.9:1
\$ 7,720	\$ 3,300	\$ 1,550	\$ 636	\$ 297	\$ 694	\$ 841	\$ 1,261	\$ 1,639
1,933	1,991	2,066	2,256	2,320	2,377	2,330	2,330	2,343
1,454	1,404	1,410	1,294	1,285	1,289	1,288	1,325	1,308

*Net earnings, dividend and cash flow per class "B" share are 5 cents less than per class "A" share except in 1970 when the differential is 4 cents, in 1971 and 1976 when there is no differential.

*The cover is printed on
Imperial Cover Gloss, White,
280M/208g/m².*

*The interior pages are printed
on Renaissance, White,
200M/148g/m².*

Printed in Canada.

